FINANCIAL PERFORMANCE OF ISLAMIC BANKING IN BRUNEI DARUSSALAM (2006-2009)

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بِسْمِ اللهِ الرَّحْمَنِ الرَّحِيمِ

SUPERVISION

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IN BRUNEI DARUSSALAM (2006-2009)

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DECLARATION

I hereby declare that this thesis is the result of my own apart from the references that I have used in my writings.

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Abstract

Islamic Banking in Brunei Darussalam has been introduced into Brunei Darussalam's banking industry in 1991. Since then, the public's awareness on Islamic banking has increased. However, there is still a lack of studies on how the Islamic banks in Brunei Darussalam have been performing. This paper attempts to evaluate the Islamic banking performance from the years 2006 to 2009 by performing ratio analysis and time series analysis for the two existing Islamic banks in Brunei Darussalam. Data used are from the income statements and balance sheets of these banks while industry averages are used as benchmarks in this evaluation. Findings have shown that there are fluctuations in the performance of Islamic banking throughout the four years. However, Islamic banking still has a significant percentage of market shares in Brunei Darussalam's banking industry in terms of Total Assets, Total Deposits and total Financing.

Keywords: Brunei Darussalam, Islamic banking and finance, performance.

Abstrak

Perbankan Islam telah diperkenalkan ke dalam industri perbankan di Negara Brunei Darussalam pada tahun 1991. Sejak itu, kesedaran awam mengenai perbankan Islam telah meningkat. Bagaimanapun, masih ada kekurangan dari segi kajian tentang prestasi bank Islam di Brunei Darussalam. Latihan akademik ini berusaha untuk menilai prestasi bank Islam dari tahun 2006 hingga 2009 dengan mengadakan analisa nisbah dan analisa *time series* ke atas kedua bank yang kini terdapat di Brunei Darussalam. Data yang digunakan adalah dari penyata pendapatan dan kunci kira-kira kedua bank ini. Purata industri pula digunakan sebagai 'benchmark' untuk penilaian ini. Hasil penilaian telah menunjukkan bahawa terdapat fluktuasi pada prestasi perbankan Islam dalam jangka masa empat tahun ini. Bagaimanapun, perbankan Islam masih memegang peratusan yang signifikan pada pasaran industri perbankan di Brunei Darussalam dari segi jumlah asset, dana dan pembiayaan.

Kata kunci: Brunei Darussalam, Perbankan dan Kewangan Islam, prestasi.

الملخص

بدأت الصناعة المصرفية الإسلامية في بروني دار السلام في ١٩٩١م، ومنذ ذلك الحين تزايد الاهتمام والوعي بالعمل المصرفي الإسلامي. هناك نقص في الدراسات التي توضح أداء المصارف الإسلامية في بروني دار السلام. تحاول هذه الدراسة تقييم أداء المصارف الإسلامية في الفترة من ٢٠٠٦ـ٢٠٠٩ من خلال تحليل مؤشرات الأداء المالي وبيانات السلاسل الزمنية لكل من المصرفين الإسلاميين العاملين حالياً في بروني دار السلام. وتعتمد الدراسة على بيانات الحساب المالي والدخل كأساس للتقييم. تدل نتائج الدراسة أن هناك تذبذباً في أداء المصارف الإسلامية خلال السنوات المذكورة. وأنّ المصارف الإسلامية لديها مساهمة مهمة في القطاع المصرفي بالسوق المحلية من خلال حجم الأصول العامة والإيداعات الكلية وإجمالى التمويلات.

الكلمات الرئيسة: بروني دار السلام، المصرفية الإسلامية والتمويل،أداء المصارف الإسلامية

Contents

Chapter One

Introduction

1. Introduction

Islamic banking has been introduced in Brunei Darussalam since 1991. Currently there is only one Islamic Bank in Brunei Darussalam and one Islamic Trust Fund which make up Islamic Banking in Brunei Darussalam. This paper will attempt to examine the financial performances of these two Islamic banks from the year 2006 until 2009. Before proceeding further, it is best to understand the research topic itself.

1.1. Definitions

1.2. Islam

The Oxford Dictionary of Islam (2003, p144) states that "Islam comes from the root word s-l-m, which means "submission" or "peace" and that Muslims are those who surrender to God's Will or Law, rendering them peace with themselves and with God".

1.3. Islamic Banking

Theoretically, as defined in the Oxford Dictionary of Islam (2003, p.35), "Islamic banking refers to interest-free banking inspired by Islamic Law which includes the *Mudharabah* (profit sharing), *Murabahah* (advance purchase with later sale at marked-up price), *Ijarah* (leasing or long term credit), and *Musharakah* (equity sharing)".

The Islamic Banks in Brunei Darussalam are governed by the Islamic Banking Order Act 2008. From the *Supplement to GOVERNMENT GAZETTE PART II dated Tuesday 30th September 2008, Bil. / No. 59*, the Islamic Banking Order 2008 defines Islamic Banking Business as a business whose aims and operations are not contrary to *Hukum Syara'* and which consists of receiving of deposits or other repayable funds from the public, paying or collecting cheques drawn by or paid in by customers, the granting of financing facilities to customers, and includes such business as the Authority may authorize for the purpose of this Order. By this, Hukum Syara' is defined as the Laws of Islam according to the Syafeite, Hanafi, Maliki or Hanbali sect of the *Ahli Sunnah Waljamaah.*

1.4. Financial Performance

Financial is defined in the Longman Dictionary of Contemporary English as an adjective to any noun which follows it, relating to money or the management of money. Performance on the other hand is defined by the same dictionary as how well or badly a company does. Therefore, financial performance refers to how well or badly a firm does in terms of the management of its money.

1.5. Overview of Islamic Banking in Brunei Darussalam

Currently, there is only one Islamic Bank in Brunei Darussalam which is the Islamic Bank of Brunei Darussalam, commonly known as 'BIBD' the acronym from its Malay translation which is 'Bank Islam Brunei Darussalam'. However, 'Perbadanan Tabung

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Amanah Islam Brunei' (TAIB) is a Unit Trust which carries out banking activities under the Tabung Amanah Islam Brunei Act. Therefore these two entities will henceforth be referred to as Islamic Banks in Brunei Darussalam in this paper.

The source for the information that will be presented shortly is Brunei Islamic Trust Fund's official website. 'Tabung Amanah Islam Brunei' (Brunei Islamic Trust Fund) was established under 'Perbadanan Tabung Amanah Islam Cap 163'. It was officially launched on the 29th of September 1991 by His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah Ibni Al-Marhum Sultan Haji Omar 'Ali Saifuddien Sa'adul Khairi Waddien, Sultan and Yang Di-Pertuan Negara Brunei Darussalam. The launching of Brunei Islamic Trust Fund marked a new beginning for Brunei Darussalam as it was the first financial institution which conducted all its activities in accordance to Islamic faith.

Brunei Islamic Trust Fund has two subsidiary companies, Insurance Islam TAIB *Sendirian Berhad* and Darussalam Holdings *Sendirian Berhad* of which Brunei Islamic Trust Fund has 100 percent shares in both companies.

Insurance Islam TAIB *Sendirian Berhad* was originally incorporated on the 3rd of March 1993 under the name *Takaful* TAIB *Sendirian Berhad* but changed its corporate entity to Insurance Islam TAIB *Sendirian Berhad* on the 11th of June 1997. Its mission is to provide competitive Islamic insurance (*Takaful*) products and Services that comply with the *Shari'ah* principles as well as to give sound and professional consultation

services to customers through well trained, highly courteous and efficient personnel supported by the use of advanced and latest information technologies (IT).

Darussalam Holdings *Sendirian Berhad* on the other hand is focused on handling Brunei Hajj Pilgrims during the early years of incorporation which was also in 1993. However, in order to diversify its products and services, it introduced its first *Umrah* package in 1997 and its travel and tours product in 2001 which includes airline reservations and ticketing worldwide hotel reservations, as well as inbound and outbound tour packages.

The information on Islamic Bank Brunei Darussalam that will be presented shortly was extracted from their official website. Islamic Bank Brunei Darussalam was incorporated on the 10th of September 2005 by merging two banks, namely, Islamic Bank of Brunei (IBB) and Islamic Development Bank Brunei (IDBB). A 'Vesting Order' was obtained from the High Court of Brunei Darussalam on 1st May 2006. A 'Vesting Order' refers to a court order to transfer property.

Islamic Bank Brunei Darussalam was fully operational on 3rd July 2006 as a full-fledged Islamic Bank with more than 600 employees. It has more than 14 branches located strategically in all the four districts of Brunei Darussalam. It has the largest distribution of ATM networks in the country situated both at all of its branches and offsite locations. Islamic Bank Brunei Darussalam has four subsidiaries; BIBD *At-*

Tamwil Berhad, Takaful BIBD *Sendirian Berhad,* BIBD Securities *Sendirian Berhad* and Investment Banking BIBD.

1.6. Objectives

The main objective of this paper is to determine the performance of Islamic Banking in Brunei Darussalam from the years 2006 to 2009. This paper will specifically aim to:

1. To illustrate the relevant data to be used in the evaluation financial performances of Islamic Banking in Brunei Darussalam

2. To analyse these data in order to determine the financial performances of Islamic Banking in Brunei Darussalam

3. To make a comparison between the two Islamic Banks in terms of their performances

4. To recommend ways on how Islamic Banking can improve their performances

1.7. Problem Statement

In order to understand the Islamic banking's performance in the banking industry, the idea of this research topic was developed. This is due to the fact that there is a lack of studies on the performances of Islamic banks in Brunei Darussalam. The study will look into the variables needed as indicators for the evaluation of the research topic. It is hoped that this study will help future researchers to find the relevant data on Islamic Banking easily or continue the research on this topic and thus improving the study.

1.8. Importance

This study will be a base for further understanding the standing point of Islamic banking in the Brunei Darussalam banking industry. By attempting to evaluate the financial performance of the Islamic banking, areas of improvement can be identified in order for the Islamic banking industry can thrive.

1.9. Scope and Limitations

This study will focus on evaluating the financial performance of Islamic Banking in Brunei Darussalam from the years 2006 to 2009. The limitation to restrict the analysis to these four years is due to several reasons. One of which is due to the time constraint in conducting this study. The duration given in order to finish this study is very limited. Due to this factor, it was very difficult to obtain more information for the relevant data from the relevant institutions.

This time constraint is also affected by the fact that there were other commitments that need to be fulfilled throughout the time given. These commitments include other assignments, presentations, tests, weekly assignments, and weekly memorization of the Quran.

Secondly, some institutions were rather reluctant in giving information needed for this research. For example, in the search of a benchmark for this study, one of the conventional banks was was reluctant to give its data due to its confidential nature. As will be explained later, the benchmark used for this study is the industry average derived from the Fiscal and Monetary Review, a publication under the Ministry of Finance. Although this publication is available in the libraries of Sultan Sharif Ali Islamic University and University of Brunei Darussalam, they were either older versions or the quarterly reviews of the Fiscal and Monetary Review. The Annual review that will be used as benchmark later on was only updated in the Ministry of Finance website in the final weeks of this study.

Due to these limitations, it may give considerable affect to the results of this study in terms of adequate analysis and hence, the quality of the findings. However, recommendations will be given at the end of this study on two aspects which are recommendations on how Islamic Banks can improve their performances and recommendations on how to improve this study for future researchers.

1.10. Hypothesis

Based on the assumption that time increases the public awareness on any business, and that time will increase efficiency of a system, these factors are potential factors in the increase of customers and decrease in operational costs in the Islamic banks. Hence, the hypothesis of this paper is that the Islamic Banking performances have increased.

Chapter Two

Literature Review

2.1. Methodology

In an attempt to identify the methodology of past literatures in evaluating Islamic Banking performances, researches on books, articles and publications have been performed. Summary of the findings of these researches are highlighted in this chapter.

In their paper titled "Islamic Banking Performance in the Middle East: A Case Study of Jordan," Ali Salman Saleh and Rami Zeitun (2006) has examined the Jordanian experience of Islamic Banking. They have examined the first and second banks in Jordan, namely Jordan Islamic Bank for Finance and Investment (JIBFI) and Islamic International Arab Bank (IIAB).

These two writers have used ratio analysis as indicators for their research. In their paper, they have also highlighted several writers who have used ratio analysis as methods in determining the financial performances of Islamic banking. In determining the profitability of the Islamic banks, they have used a number of indicators; Return on Assets, Return on Equity, Net Interest and Commissions Income over Operational Income, Credit Interest over Credit Facilities, Net Income over Total Revenues, Total

Revenues over Total Assets, (Provisions for Credit Facilities + Interest in Suspensions) Over Credit Facilities, and Net Income over Total Liabilities.

Then they analysed the capital structure of the Islamic banks using indicators such as the equity ratio, shareholders' equity over total deposit ratio, debt ratio, total deposits over total assets ratio, net credit facilities to total assets ratio, net credit facilities to total deposits ratio, shareholders' equity to credit facilities ratio, current assets to total assets ratio and total debt over total equity ratio.

Finally they analysed the liquidity of the Islamic banks in Jordan using four indicators; liquidity ratios, quick ratio, cash and investment to total deposit ratio and cash + trading investments to total deposits ratio.

M. Kabir Hassan, a Professor of Finance at the University of New Orleans and Abdel Hameed M. Basheer, a senior economist with the Economic Policy and Strategic Planning Division of Saudi Arabia together worked on a paper titled "Determinants of Islamic Banking Property." Their paper discusses the affects of the characteristics of banks and the overall environment on Islamic Banking performance. The sources of their study are cross-country bank level data, compiled income statements and balance sheets of Islamic Banking in 21 countries for each year in the 1994 to 2001 period. This analysis included Brunei Darussalam. They analyzed these data by performing ratio analysis as well as other deeper analysis.

Firstly, they performed reserve to deposit ratios, bank to GDP ratios, and tax ratios. These ratios are indicators of financial market structures. The result of this analysis showed Jordan having the highest reserve to deposit ratio at 49.69 while Algeria had the lowest at 1.97. Bank to GDP ratio analysis resulted in Lebanon having the highest ratio of 127.4 and the lowest was Sudan at 0.01. The tax ratios showed Iran having the highest ratio of 75 percent while Bahrain had the lowest at -7.87 percent.

Next, they performed the concentration ratio, which is the defined as the ratio of the three largest banks' assets to total banking sector assets. The result showed that the concentration ratio in Mauritania is high which amounted to 97 percent and the lowest is in Bangladesh which is 9.13 percent. A high concentration ratio indicates lack of competition in the banking sector.

The next analysis that they have done was on comparative performance indicators of Islamic Banks and Commercial bank operating in the same market in countries which Islamic Banking works side by side with commercial banks. The writers have chosen banks which are similar in size in terms of total assets for this analysis. They used the average of the period for this purpose.

The first analysis that they did was asset quality ratios. This is important as it indicates risks to solvency of financial institutions which are often derived from impairment of assets. According to them, financial leverage ratios are the most important ratios because poor asset quality is perceived to cause capital erosion and increase credit

risks. Analysis of asset quality also needs to take into account indicators of the likelihood of borrowers to repay their loans. According to them, loan concentration of a specific economic sector makes banks vulnerable to adverse developments in that sector or activity. Therefore, loans portfolios are closely related to the financial health and profitability of the institutions' borrowers. Hence, this is a good indicator of the performance of a banking system.

Another indicator that they used was the capital adequacy ratios. These ratios indicate the robustness of to shocks to their balance sheets. The most commonly used indicator is the risk-based capital ratio. Simple leverage ratios usually complement this ratio. The importance of the capital adequacy ratios is that it indicates the bank's capability of absorbing losses.

The writers then used operation ratios and liquidity ratios as indicators for evaluation of bank performance. The operations ratio is used because banks are increasingly involved in diversified operations that involve some aspects of market risks. At the same time, liquidity ratios are used as indicators even though liquidity is not a major problem for competitive banks as it can change rapidly. Liquidity crises are often the roots of solvency problems.

The writers have also used regression analysis in order to include macroeconomics variables to the findings of this study. However, their primary focus was by using ratio analysis due to the fact that these data are derived from income

statements and balance sheets of the banks. According to them, financial ratios usually give a broader understanding of the bank's financial condition.

As a measure of performance, the writers have chosen four types of indicators, which are net-interest margin, profit margin, return on assets and return on equity. The net-interest margin reflects the management's ability to generate positive returns on deposit. The return on asset and return on equity ratios indicate the ability of the bank to generate income from nontraditional services. Return on assets reflects the bank's ability to use its finances and real investment resources to generate profit while the return on equity reflects how efficient the bank can use its shareholders' funds to generate profit. M. Kabir Hassan and Abdel Hameed M. Basheer have found from previous studies that the bank's profitability in the United States found a strong and statistically significant positive relationship between liquidity ratios and profitability. They also found that this supported the view that profitable banks are well capitalized or that the well-capitalized banks enjoy access to less risky sources of funds with attractive profit rates.

In the end, the writers have found that Islamic banks' profitability measure respond positively to the increase in capital and negatively to loans ratios. The result revealed that larger equity to total asset ratio leads to more profit margins. It indicates that adequate capital ratios are not really a good measure of indicating banking performances of Islamic Banking. They also found that loan portfolio was heavily biased towards short-term trade financing.

Nik Mustapha Hj. Nik Hassan and Mazilan Musa, in their paper "An Evaluation of Islamic Banking Development in Malaysia" have used the time series analyses to observe the performances between Islamic Banking and Islamic banking products in Malaysia. Islamic banking products refer to Islamic windows available in the Malaysian Market. Islamic windows are the Islamic banking products offered by conventional banking in Malaysia. The time series were based on growth of assets, deposits and financing from 1983 to 2000. The results these writers uncovered were that the introduction of Islamic windows has consistently contributed towards the more stable growth of the Islamic Banking system in Malaysia. They claim that the increase in the growth of Islamic Banking was partly due to the high level of confidence among consumers in the Islamic products and services offered by conventional banks. They also plotted the time series graphs for each of the three variables that they have chosen as indicators of Islamic banking performance; which are assets, financing and deposits.

All three analyses showed a greater increase than that before the introduction of the Islamic windows into the market. However, the claim of this occurrence being the result of increase in consumers' confidence towards Islamic Banking was not supported by any empirical studies except for the time series analyses.

According to the two writers, Islamic Windows are more effective and efficient in the banking management. However, they did not justify this claim and no evidence were found in their study to validate it except the fact that Islamic windows had a higher total financing amount than Islamic Banking during the starting the 1993 period up till 2001.

The writers pointed out that financing equals business and therefore no financing means no business that equates to, ceteris paribus, no profits. In other words, no financing indicates a non-performing banking system.

Finally the writers concluded that the lower performance of Islamic Banking in comparison to Islamic windows may be due to 2 reasons; first is that conventional banking has been established long before Islamic Banks and secondly, Islamic windows have the advantage of the larger customer base of their parent banks whilst Islamic Banking has to start from zero customer bases.

In their paper, Nik Mustapha Hj. Nik Hassan and Mazilan Musa had recommended some ways on how Islamic Banking can improve their performances in every aspect especially financially. These recommendations were divided into two categories which are specific recommendations for Islamic Banking and recommendations in general. However, for the purpose of this review, these two categories are simply combined and not distinguished.

Firstly, they recommended that Islamic Banking identify the inefficient areas of their system and train their staff to cater for this inefficiency. This training should not only focus on technical matters but also in matters such as customer relations and marketing. Hence, inefficiency in the Islamic Banking system can be minimized.

Secondly, they have recommended that the marketing strategies of Islamic banking and Islamic windows be reviewed so that the existing small market share of the

Islamic banking system can be maintained as well as increased and hence, observes the effectiveness of the Islamic Banking system.

Thirdly, they suggested that Islamic Banking apportion their finances for research and development of new Islamic Banking products that can match conventional products. Hence, the Islamic Banking system will be more competitive and therefore market share can increase.

Fourthly, the two writers talked about benchmarks. The Islamic Banking needs to benchmark its performances with other banking institutions. By doing this, Islamic Banks can examine its performances in relation to the whole industry and therefore set strategies that can make them more competitive in the market.

Fifth is the need for the review of laws and regulations that can regulate the Islamic Banking sector. This is to ensure that the Islamic Banking system to receive the same treatment and legal provisions as the conventional banking.

Finally, the two writers suggested that the technical skills and knowledge among the Shari'ah Advisory Committee in terms of the practices of the banking system to be enhanced. By doing this, they will be able to give better advise to the development of Islamic Banking products, which will conform to the laws of Shari'ah in order for the Islamic Banking system to become more competitive.

In his book "Money, Islamic Banks and the Real Economy," Abdul Ghafar Ismail (2010, pp208-221) has highlighted the financial performance indicators, which he categorized into five major indicators. These five indicators include profitability and sustainability indicators, efficiency and productivity indicators, portfolio quality indicators, growth and outreach indicators, and financial structure indicators.

According to him, there are six basic profitability and sustainability indicators which are return on assets, return on equity, return on deposit, operational sustainability, financial sustainability and profit margin. Return on assets and return on equity are of the same explanations of M. Kabir Hassan and Abdel Hameed M. Basheer have given in their papers which was stated previously.

Abdul Ghafar Ismail (2010) then stated that the return on deposit ratio measures the net operating income as a percentage of average total deposits. This ratio shows how the Islamic Bank generates profit from its deposits. The operational sustainability, also known as the operational self-sufficiency, is simply the operating revenue as a percentage of operating and financial expenses. A ratio of greater than 100 percent indicates the Islamic Bank's ability to cover its costs through its own operations and not relying to contributions to survive. Financial sustainability (financial self-sufficiency) is the same as operational sustainability except that it includes inflation and subsidy adjustments. Profit margin is the measure of net operating income as a percentage of total revenue. This ratio shows the revenue earned after deducting all costs and expenses.

The efficiency and productivity indicators as the writer has identified are these five indicators; operating expenses ratio, cost per client, staff productivity, cost per unit of capital allocated and client retention. Operating expenses ratio refers to the operating expenses over the average portfolios, which indicates expenditure of the Islamic bank in order to maintain its outstanding financing portfolio. Cost of per client to its literal sense refers to the cost the Islamic bank spends to serve its clients. Cost per unit of capital allocated indicates the cost of per dollar of financing given to clients by the Islamic bank. Staff productivity ratios calculate how many clients each employee carries. In other words, this ratio shows how much financing is managed by each employee. The writer stated that this is the one of the most important ratios due to the fact that employees are usually the biggest expenses for all Islamic financial institutions. Client retention has become increasingly important in any business as new clients are considered as costly. This is because new clients need more analysis before they are granted financing.

The portfolio quality indicators as the writer identified in his book refers to the financing portfolio. He stated that the portfolio report should be included with company reports. As an example for this, he explained that if one payment from clients is late, it adds to the potential risk of the whole financing balance as the chances of recovering the balance of the financing are less if even one payment is late.

The writer then explained the growth and outreach indicators as being important targets to monitor social objectives as well as being a role as a financial indicator. All

businesses will want to grow. Growth can be calculated using the formula: percentage growth = (final –initial amount) / initial amount. Outreach on the other hand refers to the total number of clients reached. He stated that the Board of Directors of any institution should monitor the financing portfolio, growth in clients and depth in portfolio to identify the growth of the business.

Financial structure indicators include asset and liability management of the business. The writer stated that the asset and liability management is needed on several levels; profit rate management – where the Islamic bank need to make sure that funds generate more revenue than the cost of the funds, asset management – funds need to create assets that generate the most revenue, liquidity management – the Islamic bank needs to ensure that the bank has enough funds (liquid) for its operations and so that it can meet its obligations, and leverage – which refers to bank seeking funds in order to increase its assets which in turn will generate revenue. This group of indicators include liquidity, capital adequacy (solvency) and asset productivity. As have been explained earlier by other writers, these indicators have numerous ways that they can be measured.

The only difference in indicators from other writers is that the writer has included the maturity gap and foreign-currency gap. The maturity gap is a report that divides all assets and liabilities into categories of maturities or "due dates" so that the average maturity of assets can be compared to the average maturity of liabilities. If the direction of the results shows a mismatch between the two, it indicates that the business is in danger. The foreign-currency gap refers a report that compares total foreign-currency

assets with total foreign-currency liabilities denominated in foreign currency. This is important for institutions that operate in two or more different countries and use the different currencies in their operations.

An article published in the journal of Cooperation titled 'Efficiency of Islamic Banks In Malaysia-A Stochastic Frontier Approach' by Hamim S. Ahmad Mokhtar, Naziruddin Abdullah and Syed M. Al-Habsyi, has discussed the efficiency of Islamic Banking Industry in Malaysia from the years 1993-2007. The researchers have identified a number of methods that were used to measure efficiency of Islamic Banks in their paper. However, they have used the Stochastic Approach to the measure the technical and cost efficiencies of the Islamic Banking Industry with the expectation of determining whether the decision to allow foreign Islamic Banks and Islamic Windows to operate alongside the Islamic Banks had actually created a healthy competitive market as intended or did it create a destructive. The study has shown that Islamic Banks in Malaysia has shown an increase in terms of assets, financing and deposits. Full-fledged Islamic Banks were found to be more efficient than Islamic Windows and that foreign Banks were more efficient.

Another publication is the report by Donsyah Yudistira in 2003 titled 'Efficiency in Islamic Banking-An Empirical Analysis of 18 Banks.' He used the data envelopment analysis approach in order to measure efficiency by identifying input-output variables as an intermediation approach due to its relevance to Islamic Financial System. He also mentions the different types of efficiency measurement tools that were used by other scholars for their papers. Examples are by using ratio analysis, as well as the

conventional banking efficiency tool which categorized efficiency into two which are scale and X-efficiency. He concluded his paper by saying that Islamic Banks suffered considerably during the 1998 to 1999 period but recovered relatively well after the difficult times and that this proves that the Islamic financial system is stable and that it should be promoted so that global stability can be achieved. He also suggested the merger and acquisition of small-to-medium Islamic Banks is encouraged as diseconomies of scale was identified as a factor of inefficiency in his study.

2.2. Brunei Darussalam

Literatures specific on Islamic banking performance in Brunei Darussalam as mentioned before is lacking. However, word has it that there are a number of individuals who have already attempted this research topic. Unfortunately, the dissertations that they have done are not available to the public just yet. It is likely that these individuals have studied in universities outside Brunei Darussalam and hence, it is nearly impossible to identify these individuals if their dissertations are not published or kept in the libraries which are opened to the public.

The Fiscal and Monetary Reviews which are published by the Ministry of Finance Brunei Darussalam quarterly as well as annually includes the performance review of the banking industry of Brunei Darussalam. Although information on the performance of Islamic banking is available in this review, there are no specific sections for Islamic banking. The reviews made in these publications are limited to the overview of the banking system as a whole rather than focusing on each banking system.

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